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SECRET

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Central Intelligence Bulletin

CONTENTS

WARSAW PACT: Exercise ISTOK apparently will not take place this month. (Page 1)

INTERNATIONAL ECONOMIC DEVELOPMENTS: The dollar has shown surprising strength. (Page 2)

SOUTH VIETNAM: Thieu is taking additional security precautions. (Page 3)

LAOS: Government attack on Paksong on the Bolovens Plateau. (Page 5)

SOUTH KOREA: Desertion of air force trainees. (Page 6)

PHILIPPINES: Suspension of writ of habeas corpus. (Page 7)

BOLIVIA: New government moves against opposition. (Page 8)

[Redacted]

25X1

ZAMBIA: Resignation of the vice president. (Page 10)

MAURITIUS: A strike has taken on political overtones. (Page 12)

JAPAN: Communist Party visit to Moscow (Page 13)

[Redacted]

25X1

SECRET

SECRET

WARSAW PACT: The long-rumored, combined Warsaw Pact exercise ISTOK apparently is not going to take place this month in Bulgaria.

DIA25X1

A Soviet assistant military attaché in Bucharest told [] on 20 August that ISTOK had been canceled. Instead, reports [] [] now indicate that preparations for a national exercise involving only Bulgarian air and ground forces are under way in the central part of the country.

25X1
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The Soviet attaché's statement about ISTOK's cancellation corroborates earlier indications that a combined exercise was planned but evidently turned into a Bulgarian national exercise in the face of strong Romanian resistance to participate. Significantly, no official announcement was ever made, nor have military preparations for a combined exercise been observed. Numerous bloc-instigated reports about the exercise, however, probably were intended as devices to generate pressure on Romania.

The prospect for continued Soviet pressure against Bucharest nonetheless remains. For one thing, the Soviet assistant attaché said that a combined exercise is being planned for next year. It reportedly will be "the largest that's been seen," and would call for participation by all Warsaw Pact members. Neither its location nor time were cited by the Soviet. []

25X1

24 Aug 71

Central Intelligence Bulletin

1

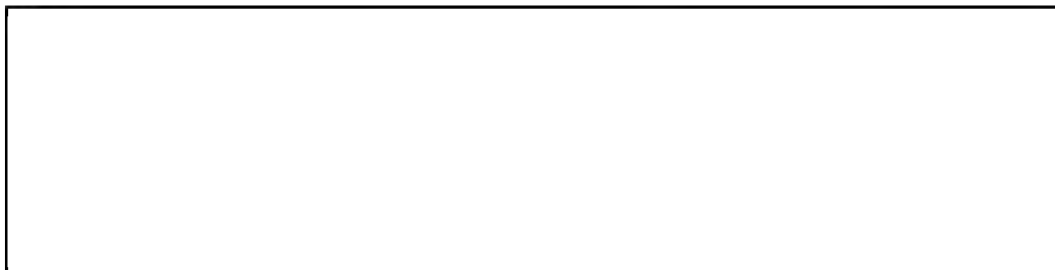
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INTERNATIONAL ECONOMIC DEVELOPMENTS: Major European foreign exchange markets reopened yesterday. Trading was slow and cautious with the dollar showing surprising strength.

The dollar declined at the opening in most European markets from rates of two weeks ago but recovered slightly in light trading. At the close, the declines averaged less than two percent. The dollar's strength is probably attributable to demand coming from those who had to cover dollar obligations that were outstanding when the new US economic measures were announced. Public pronouncements or meetings leading to renewed uncertainties about eventual parities could result in future fluctuations in exchange rates.

Tokyo's foreign exchange market was generally calm yesterday with the Bank of Japan buying only about \$10 million to maintain the yen-dollar parity. Japanese stock prices declined by about four percent, again showing the effects of the monetary crisis.



25X1

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SOUTH VIETNAM: The uneasy political situation has caused President Thieu to take additional security precautions and to check on the loyalty of members of the government.

According to press reports, South Vietnamese paratroopers are augmenting regular guards and police at the presidential palace in Saigon. In addition, police reportedly have been put on alert in the northern cities of Hue, Da Nang, and Qui Nhon to head off any demonstrations by militant opposition elements following the withdrawals of Big Minh and Vice President Ky. [REDACTED]

25X1
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Public reaction to the withdrawals of Minh and Ky is still developing, and there is little sign of any imminent disruptive protests. Many opposition groups are actively engaged in campaigning for next Sunday's Lower House elections, and probably will wait to assess the results of these contests before deciding on any new course of action.

Thieu [REDACTED] will go ahead with the 3 October presidential election on schedule, despite the withdrawals of Minh and Ky. Although Thieu is the only active candidate, [REDACTED] Ky's name will remain on the ballot. Thieu is currently meeting with government leaders, seeking an informal vote of confidence on his election policy. [REDACTED]

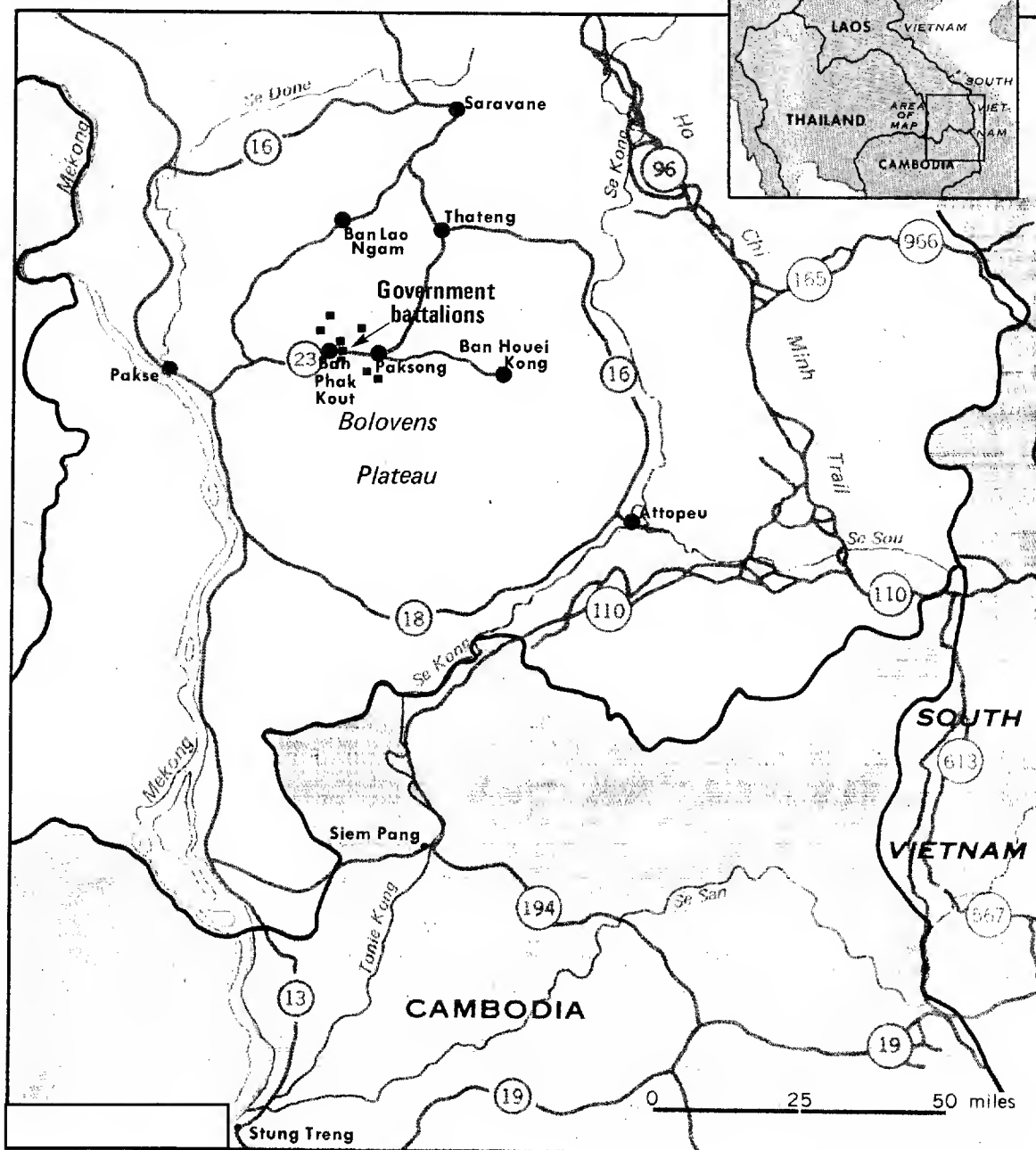
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LAOS: Bolovens Plateau Area



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25X1

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LAOS: The government is mounting a new three-pronged assault against Paksong on the Bolovens Plateau.

Three irregular battalions are to move toward Paksong from the northwest, two other battalions have been airlifted into positions southeast of the town, and three Lao Army battalions are pushing eastward along Route 23. Two of the latter units have reported continuing contact with the enemy and have made little forward progress. Tactical air and artillery are being used to support the operation.

Earlier government efforts to recapture Paksong were repulsed by determined North Vietnamese resistance. The most recent enemy counterattack, on 18 August, dispersed four Lao Army battalions, which reportedly suffered heavy casualties. Air observers report that the enemy is continuing to build up defenses in and around Paksong. Although the North Vietnamese defenders--probably largely from the 9th NVA Regiment--have been hit hard by air and artillery attacks, they have shown no dispositions to abandon their hard-won gains.

Elsewhere in Laos, military activity has remained relatively light. Vang Pao's irregular forces on the Plaine des Jarres continue to skirmish daily with Communist units located in an arc to the east of the Plaine, but little new territory has been gained or lost.

25X1

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SOUTH KOREA: Senior South Korean military officials may resign as a result of the desertion yesterday of a group of air force trainees.

[REDACTED] [REDACTED] [REDACTED]
[REDACTED] most were killed
or apprehended after a running gun battle near Seoul.

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Initial reports claimed that the incident involved North Korean infiltrators, but the government moved quickly to correct this erroneous assumption and the Minister of Defense appeared on TV to apologize and accept full responsibility. He, the air force chief of staff, and possibly the Minister of Home Affairs may step down as a result.

Failure to set the record straight could have had serious implications for the upcoming talks between North and South Korean Red Cross representatives over the question of divided families. The decision to deny publicly that infiltrators were involved [REDACTED]

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[REDACTED] reflects the importance leaders in Seoul attach to their new policy of flexibility and willingness for direct bilateral contacts with Pyongyang. [REDACTED]
[REDACTED]

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PHILIPPINES: Popular suspicion that President Marcos intends to turn an incident of political violence to his advantage may further erode his public standing.

Marcos claims that radical leftists were responsible for the grenade attack on an election rally of the opposition Liberal Party on 21 August and has suspended the writ of habeas corpus, contending the action is necessary to permit their apprehension. The blasts resulted in ten deaths and the hospitalization of all eight Liberal senatorial candidates.

The government's allegation that the radical left perpetrated the incident could be valid, although there is no confirming evidence as yet. The apparent effort to wipe out the Liberal Party leadership does not fit the traditional pattern of Philippine political violence, which has been marked by attacks on individual adversaries more than by wholesale slaughter.

The Liberal Party, nearly eclipsed by Marcos' Nacionalistas in the 1969 elections, is anxious to get the maximum political mileage from the tragedy which it believes has improved its prospects at the polls. Mindful of Marcos' aggressive campaign measures two years ago, it is fearful that he may use the habeas corpus measure against selected Liberal candidates. The party also sees Marcos' hint of martial law as a possible step toward tampering with the election timetable.

Liberal Party President Roxas, himself injured in the explosion, has placed responsibility on Marcos for the atmosphere of lawlessness that contributed to the incident. Public suspicion of a Nacionalista hand in the event, buttressed by the Nacionalistas' record of violence in 1969, will further discredit the Marcos administration.

25X1

24 Aug 71

Central Intelligence Bulletin

7

SECRET

SECRET

[BOLIVIA: The new government appears determined to crush any remaining opposition.

The only major violence in La Paz since General Torres' ouster took place yesterday after negotiations between leftist students barricaded at the university and the military broke down. The university came under heavy fire from troops, and an air force plane strafed the building. Reports on the number of casualties varied, but they are not believed to have been heavy.

Other potential troublemakers, including leftist miners, workers, and peasants, remain at large. President Banzer's firm handling of the students, however, may serve as an example to others that an attack on his administration will be dealt with swiftly.

25X1

24 Aug 71

Central Intelligence Bulletin

8

SECRET

25X1

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SECRET

ZAMBIA: The resignation of former vice president Simon Kapwepwe from the cabinet and the ruling UNIP party, is unlikely to create any unmanageable problems for the Kaunda government.

Accusing the government of corruption and President Kaunda of stifling democracy, Kapwepwe formally announced at a press conference on Sunday that he had formed a new political party, the United Progressive Party (UPP). He also called for new elections and told reporters that he plans to meet soon with leaders of the parliamentary opposition party, the African National Congress, to discuss a merger. Such an alliance seems unlikely, except in the loosest sense. Even if the two groups do find enough common ground to work together, neither commands sufficient support in parliament to pose a serious challenge to the government and new elections are not mandatory until 1973. Nevertheless, the UPP threatens Kaunda's plans to establish a one-party state, and he may try to stifle it quickly. The government reportedly arrested two members of the new party yesterday on unspecified charges.

Although a close associate of Kaunda for many years, Kapwepwe's star has been on the wane for some time. Last year, he was removed from the vice presidency because of increasing opposition to him within the UNIP. Kaunda retained him in the cabinet, however, because of his popularity among Bemba tribesmen, an important source of government support. To recoup his sagging fortunes, Kapwepwe apparently began organizing the UPP several months ago, but the party has not shown very impressive signs of strength thus far. Potentially, the UPP could draw support from the volatile copper-belt miners, who are Bemba-speakers.

The most serious problem that Kapwepwe's resignation could create for Kaunda is to arouse tribal animosities within the UNIP. Only a few UNIP Bemba leaders have openly aligned themselves with Kapwepwe

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so far. Last week Kaunda suspended four MPs from the ruling party for their connection with the UPP, which was then still under wraps. Nevertheless, the Bembas are unpopular with other tribal groups in the party and could become the subject of a witch hunt. Kaunda, however, has acted firmly in the past to suppress tribal rivalries and unless there are mass Bemba resignations from the government and the UNIP, which seems unlikely, he should be able to hold the lid on.

25X1

24 Aug 71

Central Intelligence Bulletin

11

SECRET

SECRET

MAURITIUS: A strike that has crippled the island for almost two weeks has taken on political and communal overtones.

The strike, which was triggered by bus drivers' demands for higher wages and pensions, spread quickly to dock, utility, and other workers. Government efforts to force the strikers back to work with arrests and threats of fines and dismissals have hardened the strikers' resolve and touched off considerable anti-government violence, much of it in the volatile Muslim community. Employers, meanwhile, have refused to negotiate until the strike is ended.

The strike is being led by the Mauritian Militant Movement (MMM), an increasingly important left-wing opposition party formed in mid-1969 by radicals who had studied in France. During the past year, the MMM has scored a number of political victories, many of them at the expense of the government. The MMM has also been able to draw support from the more important ethnic communities, enabling it to expand its activities throughout the island. As a result, the party has become the best organized political movement in Mauritius and the principal threat to Prime Minister Ramgoolam's shaky coalition.

Government efforts to settle the strike were initially and largely in the hands of Foreign Minister Gaetan Duval. Duval apparently viewed the crisis as an opportunity to crush the MMM. He arrested the party's top leaders and suspended publication of its newspaper, Le Militant.

Prime Minister Ramgoolam, recognizing that these moves have heightened tensions and have virtually eliminated chances of a quick end to the strike, has appointed a conciliator "to bring the parties together," but so far no compromise has been reached. Despite the prime minister's action, the government's handling of the strike has further eroded public confidence in his already unpopular administration. [REDACTED]

25X1

24 Aug 71

Central Intelligence Bulletin

12

SECRET

SECRET

NOTES

JAPAN: The recently concluded visit of Japan Communist Party (JCP) chief Miyamoto to Moscow indicates the JCP has given up its efforts to improve relations with Peking. Miyamoto, apparently concerned over the international isolation of the JCP resulting from its independent policies, suddenly decided to add Moscow to planned stops in Romania, Italy, and North Vietnam after a recent series of Chinese blasts at the JCP. Miyamoto's decision to visit Moscow for the first time in five years highlights the JCP's position as the only opposition party in Japan that has not been able to capitalize on widespread popular sentiment for improved relations with China.

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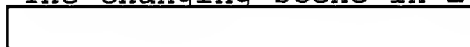
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NATIONAL INTELLIGENCE ESTIMATE

The United States Intelligence Board on 19 August 1971 approved the following national intelligence estimate:

NIE 12-71 "The Changing Scene in Europe"



25X1

24 Aug 71

Central Intelligence Bulletin

14

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Secret Approved For Release 2003/10/01 : CIA-RDP79T00975A019800090001-3

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